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C O N F I D E N T I A L KINGSTON 000471

SIPDIS

STATE FOR WHA/CAR (DHOFFMANN) (VDEPIRRO) (WSMITH)
WHA/EPSC (MROONEY) (FCORNEILLE)
EEB/TRA (VIKI LIMAYE-DAVIS)
EEB/IFD/ODF
INR/RES (RWARNER)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW
DEPARTMENT OF HOMELAND SECURITY FOR PAMELA PAK
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TAGS: [EAIR](#) [ECON](#) [EFIN](#) [ETRD](#) [SOCI](#) [PINR](#) [PREL](#) [JM](#) [XL](#)
SUBJECT: AIR JAMAICA: TWO BIDDERS, NEW LOANS, PRESSURE
MOUNTING

REF: A. KINGSTON 405
[1](#)B. KINGSTON 306
[1](#)C. ASDAR MARCH 16
[1](#)D. 08 KINGSTON 1086
[1](#)E. 08 KINGSTON 542
[1](#)F. 08 KINGSTON 401

Classified By: Lloyd Moss for reasons 1.4 (b and d)

Summary And Comment

[1](#)1. (C) The Government of Jamaica (GOJ's) efforts to privatize Air Jamaica (AJ) have gone through numerous changes and setbacks. As the deal enters its final stage, Trinidad-based Caribbean Airlines and U.S.-based Spirit Air appear to be the two remaining bidders. The GOJ hopes to have the deal struck before July 1, three months behind schedule (reftels). AJ CEO Bruce Nobles continues to restructure the airline, terminate unprofitable routes, and increase passenger loads. AJ owes roughly USD 50 millions to several creditors including USG entities, and at least two private sector firms. AJ has made few significant payments to creditors in an effort to become current, but more debt, including penalties and interest is still outstanding. AJ secured a parliamentary guarantee on June 11 for a USD 101.8 million loan to finance operations, but it will be two or three weeks before the funds are dispersed. Pressures placed on AJ by creditors, including the USG, could put a final deal in jeopardy. COMMENT: Any move on the part of creditors to shutdown the airline or seize its assets would wreak havoc on airlift to the island and possibly damage the tourism sector--the only sector in the economy that has remained resilient. At this point, a move that shuts down the airline is not in the interest of Jamaica or the United States. End Summary and Comment.

Two Bidders Remain -- New Jet Blue Competition

2 (C) Minister of Finance Audley Shaw told Emboffs as recently as mid-March that U.S.-based Spirit Air was the lead bidder (reftel ASDAR), but a deal with Caribbean Airlines is still possible. Despite press reports that U.K.-based tour operator Thomas Cooke is in negotiations with AJ, CEO Nobles says a deal with Cooke is not on the table. Nobles added that there is no strategic value in Cooke buying AJ. Central

American airline TACA expressed interest in AJ last year, but appears to have pulled out. In addition there were several private equity groups considering buying AJ last year, but most lost interest as the global economic crisis worsened. Nobles told Econoff that there is "no perfect deal on the table, each have its benefits and drawbacks, but a deal with either Spirit or Carribean is workable."

Sell To Anyone But Trinidad

13. (SBU) The thought of Caribbean Airlines taking over AJ does not sit well with many Jamaicans. There is a cultural rivalry between the two Caribbean nations that could create problems for Caribbean airlines if their bid succeeds. A newspaper editorial dated June 8 captures the sentiment and anecdotal comments heard by Emboffs. The author of the editorial talks of being "tired of hearing Trinidadians boast about how much they own Jamaica"...adding that "many people who have heard the news are shocked, and are already planning to boycott Air Jamaica if Trinidad takes over." Although AJ has really never made profit in its forty years of existence, Jamaicans have a sense of pride in the airline; it serves as the major niche carrier (50 percent of customers) for members of the Jamaican Diaspora, and is a vital link for the tourism sector.

Reason for Bad Blood

14. (C) Trinidadian companies purchased many Jamaican assets during the financial crisis of the 1990s commonly referred to as FINSAC. Whether accurate or not, prices paid by the

Trinidadians were viewed as fire sales by many Jamaicans, who believe they were under paid and resent the fact that many of these purchases soon yielded significant return on investment. This underlying cultural tension may tip the deal in favor of Spirit. Nobles acknowledges that a sale to Caribbean Airlines would be politically volatile, even though it would make good business sense for Caribbean Airlines.

Still Bleeding Cash, Will GOJ Retain AJ?

15. (C) There is also interest within both the Jamaican Labour Party (JLP) and the opposition People's National Party (PNP) of retaining the airline and recapitalizing it to continue independently. Nobels told Econoff on June 12 that Prime Minister Golding is focused on selling the airline, but may not have the political capital to pull off a sale. Any final deals will be presented to the Jamaican cabinet for approval. Given that AJ: lost USD 173 million in 2008; is expected to lose at least USD 63 million in 2009; and has accrued losses of about USD 1 billion in the last decade; it is not financially viable for the GOJ to retain AJ at this time. In addition to the high debt costs, there is increased competition in the sector, with U.S. carrier Jet Blue having added service between Montego Bay and New York's JFK airport on May 21. Jet Blue intends to add service to Kingston by October 31.

Creditors Losing Patience

16. (C) On June 11, the Jamaican Parliament provided a government guarantee for a loan of USD 101.8 million to cover operations through the year. It will still take two or three weeks for AJ to work out the GOJ and bank paperwork before funds can be dispersed. AJ is in talks with lawyers for the National Commercial Bank (NCB) in Jamaica to see if the bank can disperse funds based on just the Parliamentary resolution. AJ and the GOJ believe that this tranch of money will be sufficient to carry the airline through until a sale is negotiated. AJ also benefited from USD 820,000 in funding from U.S. Trade and Development Agency and a matching amount from the World Bank's International Finance

Corporation (IFC) to assist in covering legal and consulting costs (reftels). As penalties and interest continue to accrue, some creditors are losing patience with AJ, including USG entities. Pressure is mounting for AJ to make payments, but given the miserable shape of its current finances the GOJ is basically tapped out.

Comment

17. (C) The current severe economic and fiscal challenges facing the island make it imperative that the GOJ unload the loss making airline as soon as possible. Jamaica has suffered a severe fall out in the bauxite sector, including the closure of three of its four plants; the ensuing tax revenue losses forced the GOJ to implement a USD 285 million tax package, including a highly controversial fuel tax. Remittances, another stalwart of the economy, also are down 15 to 20 percent. The GOJ is running out of options and needs to come up with a final solution for AJ. That said, additional pressure being placed on AJ by USG creditors, including the U.S. Internal Revenue Service, which is owed the lion's share of debt, will only hinder a potential deal. AJ is at the end of its rope, but Nobles deserves credit for the level of reform he has instituted (reftels). Any move on the part of creditors to shutdown the airline or seize its assets would wreak havoc on airlift to the island and possibly damage the tourism sector--the only sector in the economy that has remained resilient. At this point, a move that shuts down the airline is not in the interest of Jamaica or the United States. End Comment.

MOSS